



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of the Connecticut Insurance Department
Before the

The Insurance and Real Estate Committee

Tuesday, February 9th, 2010

House Bill 5014-- An Act Concerning Automobile and Personal Risk Insurance

The Connecticut Insurance Department appreciates the opportunity to comment on HB 5014--An Act Concerning Automobile and Personal Risk Insurance.

Last year, personnel from the Insurance Department met with Co-Chairman Fontana to discuss the three major policy matters that are incorporated into this legislation: territorial rating classifications; the use of credit in underwriting; and, totaled motor vehicles requirements. While the Department continues to believe that Connecticut's automobile marketplace is strong and the process for valuing totaled motor vehicles is sound, the language contained within HB 5014 is reflective of the agreements reached during last year's negotiations on these policy issues.

Further, the Connecticut Insurance Department believes that our current regulatory scheme provides us with the flexibility necessary to respond to changing marketplace conditions. However, while passage of this legislation will likely reduce that flexibility, the Department is supportive of the concepts outlined in this legislation which are largely consistent with the manner in which we currently regulate our marketplace.

Territorial Rating

The Insurance Department Connecticut has a strong, open, competitive and stable automobile insurance marketplace as can be witnessed by over 6 years of single digit statewide rate changes. This can be further illustrated by the continued "depopulation" of the Connecticut Assigned Risk Auto Plan for private passenger vehicles where there are approximately 500 cars in the plan out of approximately 2 million registered vehicles. This is a continuing downward trend from previous years when, in 2003, there were approximately 6200 cars in the plan.

While the Department has agreed to the provisions of House Bill 5014, the Department requests that the promulgation of regulations under Section 1 of this bill be permissive rather than mandatory.

Credit in Underwriting

The Department guidelines for use of Financial History requires that credit scores may only be used for new business, companies may NOT order scores on renewals and companies may not decline, cancel or non-renew based SOLELY on an individual's credit score. An additional consumer protection feature under the Department's program is that insurers may not consider the lack of credit history when underwriting risks.

Since 2001 the Department has examined each company's financial history measurement programs for use in underwriting and pricing auto and homeowners insurance. The Connecticut Insurance Department believes that credit-scoring programs comply with Connecticut law, are actuarially justified, and do not unfairly impact any group of Connecticut citizens.

Totaled Motor Vehicles

Under current law, when an insurer declares a vehicle to be a constructive total loss or 'totaled' motor vehicle, an insurer must calculate the vehicle's value by using at least the average of the retail values given by the National Automobile Dealers Association—commonly known as the N A D A used care guide—and one other industry source approved by the Insurance Commissioner. The proposed legislation seeks to modify this methodology by allowing a company to use any Commissioner-approved publicly available automobile industry valuation source rather than NADA as one of the required two sources. The Department believes that proposal provides greater flexibility in the calculation methodology and supports this change to the totaled vehicle valuation law.

This proposal also requires the insurer to provide the claimant with (1) detailed calculations of the vehicle's total loss value; (2) any available valuation reports provided to the insurer by any automobile industry source that is not publicly available; and (3) a written disclosure that the claimant may dispute the settlement by contacting the Insurance Department. The Department supports these requirements in the interest of greater transparency for the consumer. These objective requirements would also benefit the Insurance Department from an enforcement perspective.

In addition, current Insurance Department statutes provide for an independent arbitration process in the event the parties are unable to agree upon a settlement amount for a totaled vehicle. The Department believes that this process has benefited consumers by providing a cost-effective means for settling vehicle valuation disputes where coverage is not in dispute. The proposed legislation would make a change to the arbitration rules by increasing from 10% to 15% the amount of interest an arbitrator may award when the arbitration decision favors the insured. The Department believes that this modification will benefit those consumers who prevail in the arbitration.

Finally, the Department is seeking to increase the cost sharing of insurers and complainants who utilize the arbitration process. Currently, arbitrations cost the Department \$500 and we charge the complainant and the company \$20 each. The changes in the Department's proposed technical revisions bill changes these amounts to \$100 for the company and \$50 for the complainant.

The Connecticut Insurance Department appreciates the opportunity to support the concepts embodied in HB 5014.